

Reynolds Telephone Company Exhibit 1

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE
ASSOCIATION

Petition for initiation and investigation of
the necessity of and the establishment of a
Universal Service Support Fund in accordance
With Section 13-301(d) of The Public Utilities
Act.

Docket No. 00-0233

Cons.

ILLINOIS COMMERCE COMMISSION
On Its Own Motion

Investigation into the necessity of and, if
Appropriate, the establishment of a universal
Service support fund pursuant to Section
13-301(d) of the Public Utilities Act.

Docket No. 00-0335

DIRECT TESTIMONY

OF

MICHAEL W. STOKES

ON BEHALF OF

REYNOLDS TELEPHONE COMPANY

OFFICIAL FILE

April 20, 2001

ILL. C. C. DOCKET NO. 00-0233/0335
Reynolds
Telephone Co. 1
Date 6-19-01 Reporter CB

1. **Q. Please state your name and business address.**

A. My name is Michael W. Stokes. My business address is 993 Clocktower Dr., Ste A, Springfield, Illinois 62704.

2. **Q. By whom are you employed and in what capacity.**

A. I am self-employed as a partner with Kiesling Associates LLP and am also a Certified Public Accountant. In addition to our Springfield, Illinois office, the firm has offices located in Wisconsin, Iowa and Colorado. The firm was founded in 1952 in Madison, Wisconsin and is currently providing accounting, auditing, consulting and other financial services to over 200 telecommunications and public utility entities.

3. **Q. Please outline your educational background and business experience.**

A. I graduated from the University of Illinois – Springfield in 1989 with a Bachelor degree in Accountancy. Upon graduation, I became employed by Kiesling Associates LLP (the firm) and worked there for over 4 years. My experience at the firm involved providing accounting, auditing, regulatory reporting, budgeting, costing, and individual & corporate income tax preparation primarily to small independent telephone companies. From 1993 through 1996, I was employed by McGladrey & Pullen CPA's (a big eight CPA firm) and GROWMARK FS and serving also in the accounting services area. In 1996 I resigned and began practicing as a sole practitioner CPA. I built a practice from 1996 to 2000 to include four employees of which primarily provided audit, tax and accounting services to telephone, cellular, cable TV, and contractor clients. In 2001, I merged my practice and my employees with my previous employer Kiesling Associates LLP and was appointed partner-in-charge of their existing Springfield, IL branch

office. In this capacity, I currently am responsible for day-to-day management and all audit and accounting services provided from the Springfield office.

4. **Q. Have you previously presented testimony before regulatory commissions?**

A. No. I have not.

5. **Q. What is your relationship with Reynolds Telephone Company?**

A. As an independent CPA, I provide accounting, income tax, financial statement preparation, and many other related accounting and regulatory services to the Company.

6. **Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to present the results of an earnings analysis for Reynolds Telephone Company. This analysis is being presented to determine whether the Company qualifies for state Universal Service support based on its rate of return.

7. **Q. Does your testimony include any exhibits, and were these prepared by you or under your direction?**

A. Yes, my testimony includes Reynolds Telephone Company Exhibit 1 and Reynolds Telephone Company Exhibit 2 which were prepared under my direction.

8. **Q. What is the source of the amounts used in the Company's earnings analysis?**

A. Reynolds Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3 attached to my testimony shows the results of the Company's earnings analysis. The amounts used in the earnings analysis were obtained from the Company's trial

balance for calendar year ended December 31, 2000, except for materials and supplies, line 2, which represents a 13 month average. The Company has provided a copy of this trial balance report December 31, 2000 to Commission Staff in support of Reynolds Telephone Company Exhibit 1.

9. **Q. Please summarize the results of the Company's earnings analysis shown on Reynolds Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3.**

A. This analysis shows that the Company has a return on rate base, or rate of return (ROR) of 9.59 percent. This is shown on Line 23. This corresponds to a ROR Funding Deficiency Including Income Taxes in the amount of \$32,259. This amount is shown on Line 28. This means that the Company has a need for state Universal Service support based solely on the Company's earnings level in the amount of \$32,259. These results reflect an adjustment to total operating revenues by subtracting Illinois High Cost Fund support on line 15, an adjustment to net regulated plant on line 1. These adjustments will be explained below.

10. **Q. Please explain the adjustment in the amount of \$372,171 that you have made to increase net regulated plant on line 1 of the earnings analysis.**

A. The purpose of this adjustment is to reflect known and measurable changes that will occur to Reynolds Telephone Company's plant for current projects in the first half of year 2001. These adjustments, as further explained in exhibit 2 et al, are the result from known supplies already purchased in the amount of \$43,354, a signed contract for switching upgrades in the amount of \$26,000, and a signed contract with Midwest Cable Splicing, Inc. for fiber cable placement in the amount of \$292,017 plus miscellaneous materials the Company has opened for bid for a related project amounting to \$10,800.

11. Q. **Does the Company's Trial Balance Report December 31, 2000 and Form 23A reflect true and actual results?**

A. As stated in our Accountant's Report that is included in Form 23A as filed with the Illinois Commerce Commission for the year 2000, we have prepared the financial statements and supplementary information included in the prescribed form, Illinois Commerce Commission Form 23A in accordance with Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The Company's financial statements and records are in accordance with Generally Accepted Accounting Principles (GAAP) and FCC Part 32 accounting rules.

12. Q. **Are you aware of any other known and measurable changes to the Company's actual calendar year 2000 results that would impact the earnings analysis?**

A. No. I am not aware of any other changes that are known and measurable.

13. Q. **Please summarize your testimony.**

A. The earnings analysis for Reynolds Telephone Company shows a ROR Funding Deficiency based on actual results for the year ending 12/31/00 plus known and measurable changes. The amount of this deficiency is \$32,259. Therefore, based solely on the results of the Company's earnings analysis, Reynolds Telephone Company should receive annual state Universal Service support in the amount of \$32,259.

14. Q. **Does this conclude your direct testimony?**

A. Yes, it does.

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 826,817	\$ 372,171	\$ 1,198,988
2	Materials and Supplies Inventory	Page 2, 13-Month Average	58,384		58,384
3	Customer Deposits	Form 23A, P 8, 4040	7,503	-	7,503
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	63,399	-	63,399
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,186,470
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	390,103	-	390,103
8	Less: Depreciation Expense	Form 23A, P 13, 6560	123,739	-	123,739
9	Total WC Operating Expense	line 7 - line 8	266,364	-	266,364
10	WC OE Requirement	line 9 * 45 / 360			33,296
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			33,296
13	Total Rate Base	line 5 + line 12			1,219,766
14	Total Operating Revenues	Form 23A, P 11, Total	593,540	-	593,540
15	Less: Illinois High Cost Fund		10,452	-	10,452
16	Net Operating Revenues	line 14 - line 15	583,088	-	583,088
17	Total Operating Expenses	Form 23A, P 14, Total	390,103	-	390,103
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	2,042	-	2,042
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	190,943	-	190,943
21	Income Tax Expense	line 34			73,969
22	Net Operating Income	line 20 - line 21			116,974
23	Return on Rate Base	line 22 / line 13			9.59%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			136,736
26	Adj to Achieve Target Return on RB	line 25 - line 22			19,762
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			32,259
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			190,943
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			13,710
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			177,233
33	Federal Income Tax Expense	line 32 * 34.00%			60,259
34	Total Imputed Income Tax Expense	line 31 + line 33			73,969
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$13,089
2	January-00	\$15,151
3	February-00	\$15,151
4	March-00	\$35,437
5	April-00	\$35,639
6	May-00	\$35,639
7	June-00	\$37,855
8	July-00	\$37,855
9	August-00	\$38,290
10	September-00	\$47,081
11	October-00	\$158,206
12	November-00	\$160,943
13	December-00	\$128,656
14	13 Month Average	\$58,384

Sale/Lease Back Arrangement

☒

The company does not have any sale(s)/lease back arrangement.

☐

The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

☒

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Reynolds Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 153,332
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 30,072
3	State Access Revenues	Trial Balance 12/31/00	\$ 134,527
4	State High Cost Support	Exhibit X, Line 15	\$ 10,452
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 10,662
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 339,045
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 25,351
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 124,929
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 83,088
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 9,266
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 242,634
12	Misc Revenues	Trial Balance 12/31/00	\$ 11,861
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 593,540</u>

Reynolds Telephone Company
Summary of Adjustments

Adjustment 1	Dr.	Cr.
--------------	-----	-----

RTB Stock	none	
-----------	------	--

To record RTB Class B stock in rate base.

Adjustment 2

To record Midwest Cable Splicing, Inc. contract dated January 16, 2001 for fiber route project to begin approximately May 2001 and Contract currently open for bid related to this project for the replacement of obsolete Fiber Terminals and related equipment/cable.

attached	\$	302,817
----------	----	---------

Adjustment 3

To record Materials & Supplies purchased for the above contract which was primarily paid for in the month's of March & April 2001.

attached	\$	43,354
----------	----	--------

Adjustment 4

To record Nortel Networks contract dated June 30, 1999 for DMS-10 SR-ten switching equipment (not delivered as of 12/31/00).

Contract amount - detail

attached	\$	26,000
----------	----	--------

	<u>\$</u>	<u>372,171</u>
--	-----------	----------------

Reynolds Tel

VIOLA-MILAN-REYNOLDS SONET RING

See exhibit "A" for details.

Viola Telephone, Reynolds Telephone and S.B.C. Ameritech will be required to install compatible SONET Ring Fiber Transmission and multiplexing terminals on their Reynolds, Milan and Viola exchanges. Existing fiber cable routes between Viola-Milan and Reynolds-Milan will be utilized. Viola Telephone and Reynolds Telephone will build a new fiber route connecting Viola to Reynolds to complete the ring. Estimated construction costs are as follows:

REYNOLDS TELEPHONE COMPANY			
Building Timing Clock	term eqpt. in office	\$19,400	Revised
Building Timing Clock Spares		5,600	76,600
OC12 SONET Terminal		28,000	
OC12 SONET Spares		14,000	
Misc. DSX - Jacks; Fiber Optic Jumpers		1,600	
Installation		4,000	
Engineering and Overhead at 8%		4,000	109,417 ← Actual Fiber Cost
Viola { 5.3 Miles of 24 fiber buried cable @ \$18,000/mile		95,400	
Misc. Splice Organizer, Riser Cable		1,400	
Engineering and Overhead @ 12%		11,616	
TOTAL		\$185,016	272,017 ← Per a Parcel

Replace Fiber Terminals
(Obsolete)

Bids +/b received by
5/1/01 - for Grace

Per Phone w/ Grace 4/17/01 (ans)
For Fiber Job to Viola
Materials & Supplies - Paid in March 01

2,454
6,648
16,310
13,148
2,603
< 3,700 > (on Viola) - billed
4,380
931 Engineering
43,354.00

misc S for dock job \$43,354

DMS-10 SR Ten
Upgrade

\$ 26,000 - Attached

\$ 372,171 Total Adjustment

Estimated
(Open for
Bids) TR
to Exh 2.0

REYNOLDS-VIOLA SONET RING - LOCAL TRANSPORT

See exhibit "B" for details.

Viola Telephone and Reynolds Telephone will add a second ring to the fiber terminals provided for the ring with S.B.C. Ameritech. Existing fiber cable routes between Viola and Reynolds will be utilized. Reynolds Telephone will build a new fiber route connecting Reynolds and Viola at the S.B.C. Ameritech junction locations to complete the ring. Estimated construction costs are as follows:

1) REYNOLDS TELEPHONE COMPANY

Add OC-3 Optics to existing fiber terminal for a second ring

\$10,000

800

Engineering and Overhead @ 8%

3.6 Miles of 24 Fiber Buried Cable

64,800 + Included elsewhere

Engineering and Overhead @ 12%

7,776

TOTAL

\$83,376

- Estimated

↑

Up in B.3.

\$10,800 TC 1st Pg.
2.02

DMS-10 SR-TEN Program Order Form

OFFICES:

Notice: Only one HSO, SA or LCC can be included below. Complete a separate agreement for each HSO, SA or LCC. Offices must be at 411.10 Generic.

Host Office (City, State): REYNOLDS SBOs (City, State): _____ Remote Office(s) (City, State): _____
Circle one: HSO, SA or LCC _____

PRICE:

For an LCC Host Office, enter a "1" under the Number of Offices below:
LCC Office

Price	Number of Offices	Extended Price
\$39,000	x _____	= _____

For HSO or SA Host Office, enter a "1" in the space corresponding to the number of equipped lines in such Office:

Small Host Office: < 1,280 Equipped Lines	\$89,000	x 1	= \$89,000
Medium Host Office: 1,281-2,560 Equipped Lines	\$78,500	x _____	= _____
Large Host Office: > 2,561 Equipped Lines	\$90,000	x _____	= _____

For SBOs, enter the number of SBOs in the space corresponding to the number of equipped lines in such Office(s):

Small SBO: < 1,280 Equipped Lines	\$47,400	x _____	= _____
Medium SBO: 1,281-2,560 Equipped Lines	\$54,900	x _____	= _____
Large SBO: > 2,561 Equipped Lines	\$68,400	x _____	= _____

Enter the number of Remote Offices in the space provided corresponding to the type of remote:

RSLM-192, OPSM-192 and/or OPAC-256	\$3,300	x _____	= _____
R8LE-512	\$6,450	x _____	= _____
RSCS-840, RLCM-840, OPAC-840 and/or R8LE-1024	\$9,800	x _____	= _____
R6CS-1920 and/or RBCS-3200	\$12,800	x _____	= _____
BCM-10U and/or BCM-10S	\$7,500	x _____	= _____

If Purchaser elects to purchase installation, enter the total number of Offices in the space corresponding to the Office type:

Installation for Host Offices (HSO, SA or LCC) and SBOs	\$9,000	x 1	= \$9,000
Installation for Remote Offices	\$8,000	x _____	= _____

Enter the number of SBOs plus the Host Office listed above which are currently covered by an SR-Ten Program Agreement
Renewal credit for Host Offices (HSO, SA or LCC) and SBOs only (\$3,000) x _____ = _____

Total Program Fee	= \$78,000
Invoice Amount per Generic (Total Program Fee divided by 3)	= \$26,000

← \$26,000

This offer by Northern Telecom Inc. ("Nortel") to sell and/or license, as applicable, the Generic Hardware. Generics and/or Installation described herein ("SR-Ten Program") is limited and subject to this DMS-10 SR-Ten Program Order Form ("Order Form") and the terms and conditions set forth in Attachment 1 to this Order Form. By signing and returning this Order Form and all attachments, Purchaser accepts this offer without condition and exception and agrees that such offer as accepted by Purchaser shall constitute the "Contract" referenced in Attachment 1.

REYNOLDS TELEPHONE COMPANY

(Purchaser)
Grace Ochsen
Signature
Grace Ochsen
Name (Printed)
Manager
Title
June 10, 1999
Date
60061099
Purchase Order Number

Northern Telecom Inc.

("Nortel")

Signature

Name (Printed)

Title

Date

This Order Form expires on June 30, 1999.

Miscellaneous Construction Work and Maintenance Services Contract

Contract Form 773NRUS
June 1998

Telephone Company: Reynolds Telephone Company

Telephone Company Designation: IL641

Contractor: Midwest Cable Splicing, Inc.

Contract No.: 2001-01

Contract Date: January 16, 2001

Contract Amount: \$ 106,000.00